

# Annual Audit Letter

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**Dudley Metropolitan Borough Council**

**Audit 2009/10**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 3 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 11).**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## **Audit opinion and financial statements**

**1** I issued an unqualified opinion on the Council's financial statements. During the audit, management agreed to a number of adjustments to the financial statements. These adjustments did not have an impact on the Council's General Fund balance or on its earmarked reserves.

## **Value for money**

**2** My conclusion on arrangements for securing economy, efficiency and effectiveness in your use of resources at the Council was unqualified.

## **Audit fees**

**3** The audit fee has increased by £18,031 from that originally proposed. This was due to an additional fee being charged in respect of reviewing the Council's accounting arrangements for PFI and similar contracts. The need for this additional fee has been reported to the Audit Committee previously.

## **Current and future challenges**

**4** The Council face challenges because of the current economic climate and also because of the requirement for financial statements to be produced under International Financial Reporting Standards in 2010/11. I and my team will continue to work with the Council as it faces these challenges.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 29 September 2010.**

## Overall conclusion from the audit

**5** I issued an unqualified opinion on the Council's financial statements. During the audit, management agreed to a number of adjustments to the financial statements. Most of these adjustments were in respect of disclosures made in the statements. These adjustments did not have an impact on the Council's General Fund balance or on its earmarked reserves. The most significant adjustments are detailed in the table below.

Table 1: **Significant adjustments**

Nature of adjustment	Reason for adjustment
The total value of fixed assets increased by £7.7m	There were a number of adjustments to individual fixed asset balances, some of which increased fixed asset valuations and some which decreased them. The net increase of £7.7m was due principally to the revaluation of the waste to energy plant and the Paragon PFI Schools on the appropriate valuation basis and to the correction of errors identified by the implementation of a new fixed assets system
The value of the Council's investment in Birmingham Airport increased by £7.7m	The Council's investment was revalued based on the Airport's latest business plan

Nature of adjustment	Reason for adjustment
The pooled budget between the Council and Dudley Primary Care Trust (PCT) in respect of Learning Disability is now disclosed in the notes to the financial statements	The Council received funding of £8.4m from the PCT in respect of this service and incurred expenditure of £8.9m. The non-disclosure of this pooled budget in the notes to the financial statements was an omission but this was corrected in the final version of the financial statements

6 I considered the wording of your financial reporting but did not identify any significant issues.

## Weaknesses in internal control

7 The audit identified a number of weaknesses in internal control. These are detailed in the table below

Table 2: **Weaknesses in internal control**

Weakness in internal control	Implication
The Council does not identify the total value of receipts and payments below £500 which are received and made in the month following year end and assess whether its policy for not accruing for such items, where appropriate, remains reasonable	The Council is not obtaining assurance that its policy for not accruing for items below £500 will not result in a material misstatement, although material misstatement in this area is unlikely
Internal audit testing found that there were weaknesses in the Council's controls for ensuring that changes to the payroll are appropriately authorised within some Directorates. For example, new starters were authorised by staff not included in the list of delegated signatories	This prevented me from placing reliance on your controls in this area and I had to perform further testing as a result. This further testing did not identify any misstatements in respect of payroll expenditure

Weakness in internal control	Implication
<p>The Section 75 Partnership Agreement for Lead Commissioning in respect of Learning Disability is still in draft form even though the partnership arrangements commenced on 1 April 2009.</p>	<p>There is no partnership agreement in place in the event of any disputes over this service between the Council and Dudley PCT</p>
<p>Journals are not authorised prior to input to the ledger</p>	<p>The Council's controls do not prevent materially inaccurate journals being input to the ledger. The Council relies on other controls to identify any such journals but they would only be identified after they had been input to the ledger</p>

Recommendations
<p><b>R1</b> Management should identify the total value of receipts and payments below £500 which are received and made in the month following year end and assess whether the de-minimis level for accruals remains reasonable.</p>
<p><b>R2</b> Staff should be reminded that only payroll/personnel documentation signed by staff who are appropriately authorised as per the completed Directorate Financial Delegation Documents should be processed.</p>
<p><b>R3</b> Management should ensure that the Section 75 Partnership Agreement for Lead Commissioning in respect of Learning Disabilities Health and Social Care Services is finalised as soon as possible.</p>
<p><b>R4</b> Management should consider adding the authorisation of material journals prior to input to the existing controls in place for journals.</p>

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## 2009/10 use of resources assessments

**8** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**9** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**10** I report the significant findings from the work I have carried out to support the vfm conclusion.

## VFM conclusion

**11** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**12** This is a summary of my findings.



Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Good governance	Yes
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Managing resources	
Strategic asset management	Yes
Workforce	Yes

**13** I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. My work on use of resources is summarised below.

### **Managing finances**

**14** The Council has arrangements in place to ensure that it manages its finances and delivers value for money. The annual budget process is completed and approved in a timely manner with strong emphasis on medium term financial planning. The council has reviewed and updated its Medium Term Financial Strategy in light of the current economic climate. There is strong leadership by Cabinet on issues of financial management. The Council is very aware of tight finances and has a culture of cost control underpinned by benchmarking. Overall it is a high performance low cost authority. The Council has strong processes in place for financial monitoring and forecasting which enables them to produce draft accounts by the end of May. The Council has commenced preparations for the implementation of International Financial Reporting Standards (IFRS).

## Governing the business

**15** The Council has arrangements in place to govern itself and commission services that provide value for money and deliver better outcomes for local people. The Council's vision is customer centric services. It is the core of the outline Business Transformation strategy and already the focus for services and initiatives.

**16** The Council is focussed on continually improving data quality but further progress is needed to ensure that it regularly meets the required standards. The Council needs to demonstrate clear outcomes from the use of an interactive mapping system (GIS-MO). The Council also needs to obtain evidence from third parties that the data they provide to the Council is quality assured.

**17** The Council has the key principles of governance in place. The council's leadership has a clear focus on ensuring that there is a strong ethical framework. The Council puts a strong emphasis on good governance in partnership working and has a well established and effective Partnership Evaluation Tool (PET) it uses for this purpose.

**18** Risk Management is embedded in the Council's processes and is clearly linked to strategic planning, financial planning, policy making and review, performance management and project management. Joint risk registers are being used and maintained with partnerships on joint projects. Good anti fraud and corruption arrangements are in place. The Council has a sound system of internal control. Chief officers attend meetings of the Audit Committee to explain what action they are taking in respect of internal control issues raised in respect of their Directorates. There is scope for improvement in how the Council follows up matches identified by the Audit Commission's National Fraud Initiative.

## Recommendations

**R5** Ensure that clear outcomes from the use of GIS-MO can be demonstrated.

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**R6** Obtain evidence from third parties that their data is quality assured. The proposed action at present is for senior level sign off of data by partners. Stronger assurance could be obtained if the data sign off was to come from, or be supported by, partners' internal audit function or similar.

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**R7** Ensure that robust mechanisms are in place for following up data matches identified by the Audit Commission's National Fraud Initiative.

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## Managing resources

**19** The Council has arrangements in place to manage its physical assets and people. The IT and physical assets strategies are still awaiting finalisation of the business transformation strategy. Once developed into action this will give clarity on the Council's future needs. The Council recognises that its estate is on multiple outdated sites. Its Corporate Property Group explored options to rationalise and modernise the Council's estate but the costs exceed its resources.

**20** Directorate asset management plans are in place but how well they are maintained varies between directorates. The cost to make good backlog repairs (as a percentage of operational asset value, including schools), has decreased but without a strategic estate solution some more major problems are expected. The Council needs to identify whether there is further scope for rationalising asset management contracts. For example, the corporate rationalisation of window cleaning contracts reduced the number of contracts from sixteen to one in the central campus area.

**21** Many directorates and services do individually workforce plan well but full use is not made of new working approaches. The Council takes a serious approach to training its staff. Organisational change is well managed and successful due to time being given to communication and negotiation and redeployment being facilitated, although there is a drop in staff holding this view. However, the libraries modernisation programme has resulted in working arrangements being changed and customer and IT skills being enhanced. Sickness absence across the Council has been brought down from an average of 9 to 7.3 days.

### Recommendations

**R8** Draft and implement clear premises and people strategies which will deliver the business transformation strategy.

**R9** Ensure that all directorate asset management plans are produced to the same high standard.

**R10** Identify whether there is scope for rationalising asset management contracts.

**R11** Identify and consider opportunities for new working approaches such as expanding the use of home working.

## Risk-based performance reviews

**22** To support my review of the criteria I undertook the following studies.

- Business transformation.
- Tackling alcohol misuse.

**23** I have reported my detailed findings to officers in separate reports. The key findings from these reviews are summarised below.

### **Business transformation**

**24** The Council is developing a business transformation programme which aims to make services more customer-centric and more cost-efficient. My review has identified that the Council has:

- a strong tradition of successfully transforming individual services so that they better meet customer needs;
- engaged with other organisations who have been through similar business transformation processes; and
- arrangements in place to learn from the experiences of such organisations.

However, the Council needs to ensure that it:

- develops a project plan to ensure delivery remains within budget and intended outcomes are delivered on time;
- starts to move more swiftly in implementing the business transformation programme;
- identifies ways of ensuring that each Directorates' business transformation plans are consistent with one another; and
- has workforce, premises and ICT strategies in place which support the business transformation programme.

### **Tackling alcohol misuse**

**25** Alcohol related disease rates in Dudley are high and are increasing.

Alcohol abuse fuels anti-social behaviour and crime and impacts on individuals, families and communities. My review found that there:

- are strong partnership working arrangements in place to tackle alcohol abuse;
- is a clear strategic vision of how the issue should be tackled; and
- is good joint working on commissioning alcohol services.

However, the Council needs to ensure that it:

- undertakes a review of commissioning for alcohol related services to ensure that this is being done as effectively and efficiently as possible;
- develops and agrees a performance framework to measure key outcomes from the alcohol strategy; and
- tries to engage the Ambulance service more in the alcohol prevention agenda.

## **Approach to local value for money work from 2010/11**

**26** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**27** My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**28** I have determined a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Challenges

**29** The Council has to produce its 2010/11 financial statements in compliance with International Financial Reporting Standards (IFRS). This is a significant undertaking for the Council and will require hard work from the officers involved. The Council has made a good start to making its financial statements IFRS-compliant by successfully implementing IFRIC12 in 2009/10. This had the effect of bringing PFI and PFI-type assets onto the Council's balance sheet for the first time. The next challenge is to restate the 2009/10 financial statements under IFRS. The Council plans to complete this exercise by the end of January 2011 and will need to do so if it is to remain on target to produce IFRS-compliant financial statements for 2010/11.

**30** I and my team will continue to work with the Council's officers to ensure that the introduction of IFRS is as smooth as possible. The Council should ensure that sufficient resources are made available to implement IFRS and that progress against key milestones is monitored regularly.

## Future developments

**31** The Council is facing strong challenges because of the current economic climate. I have developed a local programme of VFM work for 2010/11 which will review how the Council is tackling this challenge. The programme includes reviews of:

- Business transformation (follow-up).
- Cost savings and efficiencies in Adult Social Care.

**32** The results of these reviews will be reported in my annual report to those charged with governance and in my annual audit letter.

## Closing remarks

**33** I have discussed and agreed this letter with the Chief Executive and the Treasurer. I will present this letter at the Audit Committee on 10 February 2011 and will provide copies to all Committee members.

**34** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit opinion plan	April 2010
Tackling alcohol abuse	April 2010
Business transformation (draft)	June 2010
Annual governance report	September 2010
Auditor's report giving the opinion on the financial statements and the value for money conclusion	September 2010
Annual audit letter	November 2010

**35** The Council has taken a positive and helpful approach to our audit. I wish to thank the Dudley Council staff for their support and cooperation during the audit.

Tony Corcoran  
District Auditor  
November 2010

## Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	224,493	206,462	18,031
Value for money	94,507	94,507	0
Total audit fees	319,000	300,969	18,031
Non-audit work	0	0	0
Total	319,000	300,969	18,031

The variance is due to an additional fee being charged in respect of reviewing the Council's accounting arrangements for PFI and similar contracts. The need to charge this additional fee was reported to the Audit Committee in my audit opinion plan in April and in my annual governance report in September.



## Appendix 2 – Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

## Appendix 3 - Action Plan

### Recommendations

#### Recommendation 1

Management should identify the total value of receipts and payments below £500 which are received and made in the month following year end and assess whether the de-minimis level for accruals remains reasonable.

<b>Responsibility</b>	Corporate Finance
<b>Priority</b>	Medium
<b>Date</b>	April 2011
<b>Comments</b>	A review of the April 2011 receipts and payments below £500 will be made and is included in the closedown timetable. A review of April 2010 showed the de-minimis level to be very reasonable.

#### Recommendation 2

Staff should be reminded that only payroll/personnel documentation signed by staff who are appropriately authorised as per the completed Directorate Financial Delegation Documents should be processed.

<b>Responsibility</b>	Human Resources / Payroll
<b>Priority</b>	High
<b>Date</b>	March 2011
<b>Comments</b>	The implementation of the Yourself module for the PSE System will introduce more robust electronic controls over the authorisation of payroll input.

#### Recommendation 3

Management should ensure that the Section 75 Partnership Agreement for Lead Commissioning in respect of Learning Disabilities Health and Social Care Services is finalised as soon as possible.

<b>Responsibility</b>	Interim Director of Adult Social Services
<b>Priority</b>	High
<b>Date</b>	November 2010
<b>Comments</b>	The S75 Agreement is virtually complete. It is with the PCT solicitors for final, minor amendments.

#### Recommendation 4

Management should ensure that material journals are authorised prior to input.

<b>Responsibility</b>	Accountancy Management Team
<b>Priority</b>	Medium
<b>Date</b>	October 2010
<b>Comments</b>	Recommendation not agreed. Accountancy Management Team have considered the issue and believe that there is little risk in not authorising journals prior to input and would not be an efficient use of resources. This is because of the monitoring of all cost centres and working papers that takes place.

#### Recommendation 5

Ensure that clear outcomes from the use of GIS-MO can be demonstrated.

<b>Responsibility</b>	Information Systems Manager
<b>Priority</b>	Medium
<b>Date</b>	October 2010
<b>Comments</b>	There are instances of front-line services directly underpinned by GIS-MO, for example in Dudley Council Plus and Planning. These services would not be able to operate in the way that they do without GIS-MO.

#### Recommendation 6

Obtain evidence from third parties that their data is quality assured. The proposed action at present is for senior level sign off of data by partners. Stronger assurance could be obtained if the data sign off was to come from, or be supported by, partners' internal audit function or similar.

<b>Responsibility</b>	Head of Corporate Policy & Research
<b>Priority</b>	Medium
<b>Date</b>	March 2011
<b>Comments</b>	We have put that recommendation to the DCP Board who have approved the principle. Discussions will take place with the partners involved to establish the feasibility of the recommendation regarding data sign off by partners; internal audit functions.

### Recommendation 7

Ensure that robust mechanisms are in place for following up data matches identified by the Audit Commission's National Fraud Initiative.

<b>Responsibility</b>	Head of Internal Audit Services
<b>Priority</b>	High
<b>Date</b>	October 2010
<b>Comments</b>	Actions have already taken to ensure more robust mechanisms are in place for dealing with NFI. This includes the setting up of a Corporate Fraud Group.

### Recommendation 8

Draft and implement clear premises and people strategies which will deliver the business transformation strategy.

<b>Responsibility</b>	Head of Strategic Asset Planning & Assistant Director Policy & Improvement (premises) Assistant Director Policy & Improvement (people)
<b>Priority</b>	High
<b>Date</b>	December 2010
<b>Comments</b>	The new LLP (PSP Dudley LLP) will work on an office rationalisation plan for Dudley Town Centre. The work will seek to offer up a proposal that reduces the number of offices occupied by the Council in the town centre and reduce the running cost liability. At the same time it will be an opportunity for the Council to consider how it might use space differently (less space; remote working; desk sharing etc). The LLP agreed that it should now take around 3 months to do some scenario planning to ascertain viable proposals.

### Recommendation 9

Ensure that all directorate asset management plans are produced to the same high standard.

<b>Responsibility</b>	Head of Strategic Asset Planning
<b>Priority</b>	Medium
<b>Date</b>	May 2011
<b>Comments</b>	The internal audit into strategic asset management also picked this up and its currently reflected in that action plan - Corporate Property Group have accepted this and will ensure that these are improved over the next year so that they are data rich and meaningful as working documents rather than 'desk top' policies. CPG accepted this point and have taken ownership collectively.

### Recommendation 10

Identify whether there is scope for rationalising asset management contracts.

<b>Responsibility</b>	Head of Strategic Asset Planning
<b>Priority</b>	Medium
<b>Date</b>	
<b>Comments</b>	Agreed in principle but there are other issues which need considering. It is difficult to do this without a significant review of how property was administered (i.e. a move towards centralised facilities management and away from duplicated Directorate/occupier led management). Some opportunities will be raised as part of the LLP (R8) work as assets might be transferred into the ownership of the LLP who might in turn then be responsible for day to day management of them.

### Recommendation 11

Identify and consider opportunities for new working approaches such as expanding the use of home working.

<b>Responsibility</b>	Assistant Director Policy & Improvement
<b>Priority</b>	High
<b>Date</b>	March 2011
<b>Comments</b>	New working approaches will be identified and considered.

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